SpareBank 1 SMN

Note 4 - Capital adequacy

SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems. As from 31 March 2015 the bank has received permission to apply the Advanced IRB Approach to those corporate portfolios that were previously reported under the Basic Indicator Approach.

As of 30 June 2016 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and countercyclical buffer is 1.5 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 11.5 per cent. The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016.

In connection with changed requirements on conditions governing hybrid capital, hybrid capital not meeting the new requirements over time will not be eligible as other core capital. The bonds will subject to a stepwise reduction of 40 per cent in 2016 and 10 per cent thereafter. As at 30 June 2016 SpareBank 1 SMN held hybrid capital worth NOK 450m that will be subject to stepwise reduction. Finanstilsynet may require the hybrid capital to be written down in proportion to equity capital if the bank's CET1 capital ratio falls below 5.125 per cent.

The parent bank calculates capital charges against operational risk using the standardised approach. In the case of subsidiaries, the basic indicator approach is applied.

Parent Bank				Group		
31 Dec 2015	**30 June 2015**	**30 June 2016**	**(NOKm)**	**30 June 2016**	**30 June 2015**	**31 Dec 2015**
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-7	-0	-21
895	895	895	Premium fund	895	895	895
3,790	3,122	3,790	Dividend equalisation fund	3,783	3,122	3,790
4,105	3,619	4,105	Savings bank's reserve	4,105	3,619	4,105
292	-	-	Recommended dividends	-	-	292
40	-	-	Provision for gifts	-	-	40
279	139	221	Unrealised gains reserve	233	148	290
-	-	5	Other equity	1,681	1,639	1,597
-	-	-	Non-controlling interests	403	301	318
-	1,117	938	Net profit	771	871	-
11,998	**11,489**	**12,552**	**Total book equity**	**14,460**	**13,191**	**13,904**
-447	-447	-473	Deferred taxes, goodwill and other intangible assets	-715	-664	-662
-	-	-	Part of reserve for unrealised gains, associated companies	169	120	264
-332	-	-	Deduction for allocated dividends and gifts	-	-	-332
-	-	-	Non-controlling interests recognised in other equity capital	-403	-301	-318
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	203	47	132
-93	-4	-93	Surplus financing of pension obligations	-94	-	-43
-	-1,117	-938	Net profit	-771	-871	-
-	882	707	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	540	636	-
-33	-30	-36	Value adjustments due to requirements for prudent valuation	-58	-43	-55
-164	-240	-124	Positive value of adjusted expected loss under IRB Approach	-187	-318	-239
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-389	-355	-458
10,928	**10,533**	**11,594**	**Total common equity Tier one**	**12,757**	**11,443**	**12,192**
950	950	950	Hybrid capital, core capital	1,362	1,217	1,310
495	491	493	Hybrid capital covered by transitional provisions	493	491	495
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-9	-9
12,373	**11,974**	**13,037**	**Total core capital**	**14,604**	**13,142**	**13,988**
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,647	1,692	1,647
786	786	673	Subordinated capital covered by transitional provisions	673	786	786

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-43	-43	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-43	-43
1,743	**1,743**	**1,631**	**Total supplementary capital**	**2,278**	**2,435**	**2,390**
14,116	**13,717**	**14,668**	**Net subordinated capital**	**16,882**	**15,577**	**16,378**
			Minimum requirements subordinated capital			
1,027	1,148	1,027	Involvement with spesialised enterprises	1,169	1,391	1,213
1,049	927	1,095	Other corporations exposure	1,143	965	1,105
1,093	1,104	1,137	Mass market exposure, property	1,596	1,514	1,557
157	173	160	Mass market exposure, SMEs	170	185	167
38	13	39	Other retail exposure	43	13	40
1,221	1,148	1,238	Equity investments	3	0	0
4,585	**4,513**	**4,696**	**Total credit risk IRB**	**4,123**	**4,068**	**4,082**
64	199	18	Debt risk	19	200	64
-	-	-	Equity risk	10	8	10
-	-	-	Currency risk	1	0	-
316	316	334	Operational risk	479	457	457
922	1,001	1,033	Exposures calculated using the standardised approach	1,931	1,926	1,805
53	30	47	Credit value adjustment risk (CVA)	90	71	106
-	-	-	Transitional arrangements	585	471	634
5,939	**6,060**	**6,127**	**Minimum requirements subordinated capital**	**7,237**	**7,201**	**7,157**
74,243	**75,746**	**76,592**	**Risk weighted assets (RWA)**	**90,464**	**90,010**	**89,465**
3,341	3,409	3,447	Minimum requirement on CET1 capital, 4.5 per cent	4,071	4,050	4,026
			Capital Buffers			
1,856	1,894	1,915	Capital conservation buffer, 2.5 per cent	2,262	2,250	2,237
2,227	2,272	2,298	Systemic rick buffer, 3.0 per cent	2,714	2,700	2,684
742	757	1,149	Countercyclical buffer, 1.5 per (1.0 per cent)	1,357	900	895
4,826	**4,923**	**5,361**	**Total buffer requirements on CET1 capital**	**6,332**	**5,851**	**5,815**
2,761	**2,201**	**2,786**	**Available CET1 capital after buffer requirements**	**2,354**	**1,542**	**2,351**
			Capital adequacy			
14.7 %	13.9 %	15.1 %	Common equity Tier one ratio	14.1 %	12.7 %	13.6 %
16.7 %	15.8 %	17.0 %	Core capital ratio	16.1 %	14.6 %	15.6 %
19.0 %	18.1 %	19.2 %	Capital adequacy ratio	18.7 %	17.3 %	18.3 %
9.1 %	8.7 %	9.1 %	Leverage ratio	6.8 %	6.5 %	6.7 %